

(i) IN GENERAL.—The aggregate loss recognized by reason of the application of section 481 of the Internal Revenue Code of 1986 with respect to section 817A(b) of such Code (as added by this section) for the first taxable year of the taxpayer beginning after December 31, 1995, shall not exceed the amount included in the taxpayer's gross income for such year by reason of the excess (if any) of—

(I) the amount of life insurance

reserves as

of the close of the prior taxable year, over

(II) the amount of such reserves as of the

beginning of such first taxable year.

to the extent such excess is attributable to subsection

(a) of such section 817A. Notwithstanding the preceding

sentence, the adjusted basis of each segregated

asset shall be determined as if all such losses were

recognized.

(ii) DISALLOWED LOSS ALLOWED OVER PERIOD.—

The

amount of the loss which is not allowed under clause

(i) shall be allowed ratably over the period of 7 taxable

years beginning with the taxpayer's first taxable

year beginning after December 31, 1995.

(B) LIMITATION ON DEDUCTION FOR INCREASE IN RESERVES.—

(i) IN GENERAL.—The deduction allowed for the

first taxable year of the taxpayer beginning after

December 31, 1995, by reason of the application of

section 481 of such Code with respect to section 817A(a)

of such Code (as added by this section) shall not exceed

the aggregate built-in gain recognized by reason of

the application of such section 481 with respect to

section 817A(b) of such Code (as added by this section)

for such first taxable year.

(ii) DISALLOWED DEDUCTION ALLOWED OVER PERIOD.—

The amount of the deduction which is dis-

allowed under clause (i) shall be allowed ratably over

the period of 7 taxable years beginning with the tax-

payer's first taxable year beginning after December

31, 1995.

(iii) BUILT-IN GAIN.—For purposes of this subpara-graph, the built-in gain on an asset is the amount equal to the excess of—

(I) the fair market value of the asset as of the beginning of the first taxable year of the taxpayer beginning after December 31, 1995, over

(II) the adjusted basis of such asset as of such time.

SEC. 1613. TREATMENT OF CONTRIBUTIONS IN AID OF CONSTRUCTION.

(a) TREATMENT OF CONTRIBUTIONS IN AID OF CONSTRUCTION.—

(1) IN GENERAL.—Section 118 (relating to contributions to the capital of a corporation) is amended—

(1) subsection (e),
and
(2) following new
subsections:

by redesignating subsection (c) as

by inserting after subsection (b) the